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SUBJECT: BHP BILLITON CEO ON NEGOTIATING WITH CHINA

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Classified By: Justin Kolbeck, pol/econ officer for reason 1.4 (d)

Summary

¶1. (C/NF) The CEO of the world's largest mining company sees another difficult year ahead for ore negotiations with the Chinese. BHP Billiton, which provides China with a growing portion of its imported ores, expects a slow global recovery, with any pickup in the U.S. economy being offset by the fact that China has finished restocking supplies of key ores. End Summary.

Turbulent Negotiations Ahead

¶2. (C/NF) Marius Kloppers, BHP Billiton's CEO, told Charge and Consul General on November 5 that he expects another difficult year in negotiating with the Chinese on ore prices. The Chinese Iron and Steel Association (CISA) is pushing again for below-contract prices on ores, but Kloppers hopes that CISA will settle by default on prices similar to those agreed on with Japanese firms, as it did in 2009. BHP Billiton has had some dealings with individual Chinese steel mills, but Kloppers said BHP negotiates most frequently with state-owned enterprises, which are able to wield enormous clout by closing ranks and presenting a unified front on pricing. (Comment: Kloppers has long campaigned to move the Chinese away from contract-based pricing to a market-based model. He noted that achieving this goal is still a ways off. End comment.)

¶3. (C/NF) Uranium is a small, but important part of BHP's business. Kloppers said he would schedule expansion on the Olympic Dam Mine - the world's largest uranium deposit - to be commensurate with rising world demand. China's nuclear program will be an important customer for BHP's uranium business and Kloppers said that he was impressed by how quickly and effectively the Chinese have been able to build state-of-the-art nuclear power plants. The secret, he said, has been a Chinese focus on designing easily replicable facilities. Kloppers went on to say that the Rudd government's ongoing refusal to sell India uranium until it signs the Nuclear Non-Proliferation Treaty does not impact BHP's business. "As long as someone can sell to the Indians, the world market will continue to expand, which helps us," he said.

Bearish Expectations on the Global Economy

¶4. (C/NF) Kloppers, who is cautious by nature, said he expects the global economy to recover at a slow pace. Even if the U.S. economy recovers faster than expected, the resulting boons to the global economy will be offset by the fact that the Chinese have finished restocking their ore stores, leading to a short-term reduction in global demand. Kloppers was worried that loose monetary policy and low interest rates in the United States were inflating commodity prices and creating bubbles in the Australian housing and equities markets, noting that stock prices have far outpaced any reasonable projections of earnings.

Australia's Climate Change Legislation  
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¶5. (C/NF) Kloppers described Australia's Carbon Pollution Reduction Scheme (which goes before the Senate for a second time this month) as simply a "tax on exports." While this is a refrain we have heard from other businesspeople, Kloppers pointed out that Australia's legislation is the only one in the world that will tax fugitive emissions which are released during coal mining. He said this hits BHP in two ways, since the company is taxed on emissions released during production, and will not obtain government subsidies that will be given to power plants under the proposed legislation. By 2020, BHP expects it will be paying approximately US \$550 million in carbon taxes each year, 50 percent of which will come from fugitive emissions.

Comment  
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¶6. (C/NF) Kloppers has a keen interest in learning everything he can about the Chinese and is not shy about asking us for our impressions. His long-term campaign to move the Chinese

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toward market pricing on ores seems to be making some progress, though Kloppers was frustrated by the Chinese tendency "to want to control everything" in their domestic economy.

THURSTON